MULTIMEDIA UNIVERSITY STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015/2016

BBF 2154 – INVESTMENT

(All sections / Groups)

10 OCTOBER 2015
9:00 – 11:00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with 5 Questions only.
2. Attempt **FOUR** out of **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Students are allowed to use non-programmable scientific and financial calculators.
4. Please write all your answers in the Answer Booklet provided.

QUESTION 1

ROCKY Corporation foresees a non-constant growth pattern for dividends. Dividend at the end of year 1 is RM4.00 per share and is expected to grow by 10% per year until the end of year 4. After year 4, dividends are expected to grow at 6%. All dividends are to be discounted back to present at a 14% rate.

(i) Estimate the dividend for year 2 until year 4. (6 marks)

(ii) Find the NPV for all dividends from year 1 until year 4. (7 marks)

(iii) Find the dividend in year 5. (3 marks)

(iv) Find the present value of year 4 stock price. (5 marks)

(v) What is the total present value of ROCKY's stock? (4 marks)

(Total: 25 marks)

QUESTION 2

(a) Monetary policy is one of the ways that the government attempts to control the economy. If the money supply grows too fast, the rate of inflation will increase and if the growth of the money supply is slowed too much, then economic growth may also slow. In monetary policy, there are a few tools to determine the demand and supply of money in the economy. Discuss **THREE** tools that can help to increase money supply in the economy. (15 marks)

(b) Using the Table below, assume Miss Lynnie has a taxable income of RM40,000.00.

(i) How much is her tax obligation? (You will need to refer to the Table below for tax calculations). (8 marks)

(ii) What is Ms Lynnie's average tax rate? (2 marks)

Taxable Income (RM)	Tax Rate (%)
0 – 7,300	10
7,301 – 29,700	15
29,701 – 50,000	25

(Total: 25 marks)

Continued ...

QUESTION 3

(a)

(i) What is the yield to maturity (YTM) of a 10 % coupon rate, RM1000 par value bond which is currently priced at RM1200 with 11 years to maturity? (6 marks)

ii) What would be the yield to call (YTC) if the call can be made in 7 years at a price of RM1025? (6 marks)

(b) Why are bond ratings important for companies? (8 marks)

(c) Why does the shape of the yield curve change with the maturity period of the loans? Cite the Expectation theory to support your explanation.

(5 marks)

(Total: 25 marks)

QUESTION 4

a) An investor owns a portfolio consisting of the following stocks:

Stock	Investment Amount	Beta	Expected return
L	RM40,000	1.80	25%
M	RM32,000	1.30	20%
N	RM60,000	0.80	11%
O	RM43,000	1.05	13%

The Treasury bill rate is 5% and the expected return on the market portfolio is 8%.

i) What is the expected return of the portfolio? (9 marks)
ii) Calculate the beta of the portfolio. (5 marks)
iii) Is the portfolio overpriced or underpriced? (6 marks)

b) Imagine yourself as a potential investor of Company Ace. Explain why you need to consider company Ace's systematic risk only. (5 marks)

(Total: 25 marks)

Continued ...

QUESTION 5

a) Mental accounting and framing is two behavioral traits which investors exhibit. How do these traits influence decision making? (6 marks)

b) Soybest Corporation anticipates the need to purchase 70,000 bushels of soybeans in six months to use in their products. The current cash price for soybeans is RM5.50 a bushel. A six-month futures contract for soybeans can be purchased at RM5.60.

(i) Discuss why Soybest Corporation might need to purchase futures contracts to hedge their position. (4 marks)

(ii) To completely hedge their exposure, how many contracts will they need to purchase? Soybeans trade in 5,000-bushel contracts. (2 marks)

(iii) If the cash price of soybeans ends up at RM5.75 per bushel after six months, by how much will the actual cost of 70,000 bushels of soybeans have gone up? (5 marks)

(iv) After the futures contracts are closed out (sold at RM5.75), what will be the gain on the futures contracts? (5 marks)

(v) What is the overall gain or loss considering the answer in part (iii) and part (iv)? (3 marks)

(Total: 25 marks)

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